

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7573

Petition of Green Mountain Power Corporation    )  
for Approval to Issue First Mortgage Bonds in    )  
an Amount of up to \$30,000,000 Pursuant to       )  
30 V.S.A. § 108    )

Order entered: 12/22/2009

**I. INTRODUCTION**

On November 9, 2009, Green Mountain Power Corporation ("GMP" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(a) to issue long-term debt securities in a maximum aggregate offering amount up to \$30 million ("the Bonds") by means of a private placement. The Bonds will be issued under the Company's First Mortgage Bond Indenture ("Indenture"). GMP is also in the process of completing an application with the Vermont Economic Development Authority ("VEDA") to determine if there is an opportunity to obtain tax-exempt funding, up to a maximum of \$25 million per award, through the Recovery Zone Bond pool ("RZB").<sup>1</sup> If approved, GMP will incorporate any amount received from the RZB as part of the total \$30 million amount requested by this Petition. The Petition was supported by the testimony of Dawn Bugbee, the Company's Chief Financial Officer, and by accompanying exhibits.

On November 30, 2009, the Vermont Department of Public Service ("DPS") informed the Board by letter that it believes that the issuance of long-term debt as set forth in the Petition is consistent with the general good of the state, and recommends approval of the Petition without a hearing. As part of the same filing, the DPS also filed its Determination Under

---

1. On October 14, 2009, the State's Emergency Board approved a plan to make \$135 million of low-interest bonding authority available statewide for economic development projects through VEDA. The bonding authorization is part of the American Reinvestment and Recovery Act. This authorization allows tax-exempt bonds to be issued for projects that would otherwise have to use more expensive taxable bonding. VEDA will underwrite the applications and assist borrowers in placing their bonds. Bugbee pf. at 3.

30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition without hearing and finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of GMP's Petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the testimony and exhibits presented in this docket, and the DPS letters of November 30, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

## **II. FINDINGS**

1. GMP is a Vermont corporation, with its principal place of business in Colchester, Vermont, and is subject to the jurisdiction of the Board. Petition at 1.

2. The Bonds will be issued under the Company's Indenture and, together with the Company's other first mortgage bonds, will be secured under the terms of the Indenture by a first lien on substantially all of the Company's utility property. The Bonds are to be issued by means of a private placement. Bugbee pf. at 2; Petition at 1.

3. GMP is also in the process of completing an application with VEDA to determine if there is an opportunity to obtain tax-exempt funding available through the RZB pool. The maximum award is up to \$25 million per applicant. If awarded, the Company intends to incorporate the funding into the offering of the Bonds; therefore, the total issuance will be up to \$30 million with or without the RZB offering. The closing for the RZB is expected to occur in January or February 2010. In the event GMP is not successful in obtaining a portion of the funding through the RZB pool, it will continue with the issuance of the Bonds through private placement. Bugbee pf. at 2-3.

4. The term and interest rate for the Bonds have not yet been established and will be determined at the time of their placement with a purchaser. GMP expects that the term will be 20-30 years and, if interest rates for the 30-year treasury bonds remain in their present range of approximately 4.00% - 4.45%, and offer spreads remain in their present range of 200-300 basis points, the Company estimates a fixed interest rate of 6.0 - 7.5%. As for the RZB offering, the

Company does not know if it will be selected to participate in the RZB pool. However, if GMP is selected, the Company anticipates tax-exempt offer spreads in the range of 100-150 basis points and an estimated fixed rate of between 5.0 -5.9%. Bugbee pf. at 4-5.

5. GMP's debt is rated BBB, "Stable" by Standard & Poor's ("S&P"), and A- for secured debt. The Company's BBB rating from S&P is about average for energy companies. GMP's secured bond rating with Moody's is A3. A recent Blue Chip forecast for A3-rated companies indicated an expected borrowing rate of approximately 6.25% for a 20-year issue and 6.50 percent for a 30-year issue. Bugbee pf. at 5-6.

6. The capitalization of the Company as of September 30, 2009, was as follows:

Long-term debt	\$140,000,000
Short-term debt	\$ 14,000,000
Common equity	\$171,855,000

Capitalization as of September 30, 2010, reflecting the anticipated impact of the proposed issuance, is as follows:

Long-term debt	\$170,000,000
Short-term debt	\$ 12,000,000
Common equity	\$178,000,000

Bugbee pf. at 6.

7. The change represented above is within the range of the Company's target capital structure, which is approximately 50.1% equity, and 49.9% debt. Practically speaking, the amount of leverage in the Company's capital structure will fluctuate by 3-5 percentage points around the target capital structure amount. While the Board should always be concerned with worsening financial ratios, the increased leverage in the rate year should not be problematic as long as the Company's earnings and cash flows do not decline materially. GMP plans to issue the Bonds during fiscal year 2010 and included the issuance in its rate filing submitted for the twelve-month period of October 1, 2009, through September 30, 2010. Bugbee pf. at 7.

8. GMP will use its short-term revolving line of credit to fund its investment in Vermont Transco LLC, as well as other related investments, which will total approximately \$13 million as of December 2009. The Company estimates that its current borrowing needs to fund

2010 capital expenditures will exceed this amount. Therefore the Company expects to use the proceeds of the Bonds to fund its capital requirements and to reduce its short-term debt.

Bugbee pf. at 4.

9. The Company met with its rating agencies in early January, 2009, and has communicated its plans regarding future long-term debt financing, other significant financial assumptions, and the forecasted impacts of the leverage and rate increases. The rating agencies have not expressed concerns that the forecasted results would reduce the Company's credit rating. Bugbee pf. at 8.

10. Some terms, including interest rate, maturity date(s), redemption options (if any), sinking fund obligations (if any), and the final amount of bonds to be issued, will be finally determined according to market conditions and negotiated terms with a proposed private placement purchaser or purchasers. GMP is considering two competitive bids from investment firms to manage the placement of the Bonds and will sign an engagement letter in time for the 2010 issuance. Bugbee pf. at 5.

11. Without the proposed transactions, the Company's short-term liquidity will be exhausted. GMP does have the option to activate the accordion feature<sup>2</sup> on its 5-year revolver agreement up to an additional \$15 million in availability; however, if this feature is activated, the interest rate for the full line outstanding would be priced at the current London Interbank Offered Rate ("LIBOR") plus 300 basis points. (The Company's current rate on its revolver is LIBOR plus 35 basis points). The completion of the proposed transactions will bring GMP's equity and debt capitalization levels in line with the Company's targets and should not adversely affect the Company's investment ratings. Bugbee pf. at 7-8.

### **III. DISCUSSION & CONCLUSION**

Based upon the findings and the evidence in the record, I find that GMP's Petition as described above will be consistent with the general good of the State. I therefore recommend

---

2. This feature involves an extension by the lender of additional credit availability above the originally established credit limit on the existing line of credit. Different institutions use different terminology for this feature, which is also known as a "guidance" or "advisory" line of credit. *Pratt's Commercial Law: A Banker's Handbook*. Vol. 1, § 2-9 (A.S. Pratt & Sons, 1997).

that the Board approve the Petition and authorize the requested issuance of long-term debt in an amount up to \$30 million to fund GMP's capital requirements and to reduce its short-term debt.

Although I make this recommendation after satisfactory review of the current evidence in the record, I am at the same time concerned that this latest request may be pushing the limits of GMP's target capitalization of 49.9% debt, 50.1% equity. As indicated in Finding No. 7 above, GMP anticipates some fluctuation in its debt component of between 3 and 5 percent, which indicates that GMP's debt-to-capital ratio may potentially be as high as 55% at certain times during its fiscal year. Admittedly, some of this variation is due to the normal periodic expansion and contraction of GMP's revolving line of credit. However, as GMP continues to borrow long-term, in conjunction with relying on its credit line as a bridge to finance the gap between initiating capital projects and obtaining approval for financing, it appears that maintaining and not exceeding the target capitalization may become more difficult for GMP over time. Indeed, as shown by Finding No. 6, the debt component of GMP's projected capitalization of 51% as of September 30, 2010, exceeds GMP's target by 1.1%. As GMP moves forward with future capital investments, and with long-term debt already comprising 47% of capital with the present request,<sup>3</sup> and given GMP's revolving credit limit of \$30 million,<sup>4</sup> exceeding the 49.9% target will likely become more frequent, lessening the credibility of such a target and potentially having an adverse affect on GMP's credit ratings, unless additional infusions of equity are obtained. Continuing recessionary pressures, combined with the potential for future interest-rate increases, could also hamper GMP's efforts to keep its capitalization within the specified target. That said, I also recognize that GMP is in the unique position, unlike other Vermont electric utilities, to take advantage of its corporate relationships in Canada to access additional sources of capital which may provide greater dollar-for-dollar value during adverse economic circumstances.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. § 811.

---

3. Bugbee pf. at 6.

4. Green Mountain Power Corporation, Consolidated Financial Statements for September 30, 2008 and 2007, footnote no. 6 at 20.

Dated at Montpelier, Vermont this 18<sup>th</sup> day of December, 2009.

s/Jay E. Dudley  
Jay E. Dudley  
Hearing Officer

#### **IV. ORDER**

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The Board consents to the issuance by Green Mountain Power Corporation ("GMP") of long-term debt securities in a maximum aggregate offering amount up to \$30 million, as set forth in the findings, above.
3. The Board consents to the mortgage and pledge of real and personal property of GMP under GMP's First Mortgage Bond Indenture, as set forth in the findings, above.
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that GMP may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. GMP shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. Upon request, GMP shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 22<sup>nd</sup> day of December, 2009.

<u>s/James Volz</u>	)	
	)	PUBLIC SERVICE
	)	
<u>s/David C. Coen</u>	)	BOARD
	)	
	)	OF VERMONT
<u>s/John D. Burke</u>	)	

OFFICE OF THE CLERK

FILED: December 22, 2009

ATTEST: s/Susan M. Hudson  
Clerk of the Board

*Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*